

MINUTES

BOARD OF TRUSTEES
PUBLIC EMPLOYEES' RETIREMENT FUND
143 West Market Street, Suite 500
Indianapolis, IN 46204

February 18, 2000

TRUSTEES PRESENT

Richard Doermer, Chair
Nancy Turner, Vice Chair
Dr. Teresa Ghilarducci
Steven Miller
Jonathan Birge

OTHERS PRESENT

Diana Hamilton, Special Liaison to the Governor for Public Finance
Steffanie Rhinesmith, Indiana Development Finance Authority
Mary Beth Braitman, Ice Miller Donadio & Ryan
Kris Ford, Wm. M. Mercer Investment Consulting
Chris Levell, Wm. M. Mercer Investment Consulting
Louis Finney, Wm. M. Mercer Investment Consulting
Richard Boggs, Burnley Associates
Doug Todd, McCready & Keene, Inc.
E. William Butler, PERF Executive Director
Mark Webb, PERF Deputy Director & General Counsel
Bill Hutchinson, PERF Division Director, Pension Administration
Linda Stahl, Recording Secretary

1. AUDIT COMMITTEE

The first meeting of the Audit Committee was conducted on February 17. Larry Francisco with PricewaterhouseCoopers (PwC) was present and discussion was undertaken with respect to an internal audit function. As previously discussed, different members of the Board of Trustees have raised concern with respect to the lack of an internal audit function within PERF. Accordingly, the Executive Director undertook discussions with PwC and requested that they look at helping create and flesh out the function of an Internal Auditor, and secondly that they help draft and put in final form a set of internal controls, including the policies, rules, etc. that would be required. Lastly, they were asked to help with an initial audit plan that would include the first set of projects for an Internal Auditor as well as an implied schedule.

The firm responded with a proposal, and their suggested costs were within the amount of money the Fund has in its budget specifically dedicated to an internal audit.

Therefore, **MOTION** duly made and carried to adopt Resolution 00-01 (attached) to authorize the development of a PERF internal audit function.

Proposed by: Jonathan Birge
Seconded by: Steve Miller
Votes: 5 for, 0 against, 0 abstentions

2. LEGISLATION UPDATE

Mary Beth Braitman reported that Senate Bill 64, which would make both PERF and TRF independent bodies corporate and politic, has moved through the General Assembly as follows:

- Pensions & Labor Committee - Passed unanimously
- Senate Floor - Passed 47-0
- Ways & Means Committee - Passed 24-0
- House Floor – Passed 93-2 on third reading

The bill was amended once in the Senate at PERF's request and involved two matters. One concerned reporting expenses on a percentage of assets, and the other concerned collective bargaining issues as it related to employees represented by UAW. It was also amended in the House to provide PERF coverage for the nine Constables in Marion County. It appears there will probably not be a concurrence on the bill as amended in the House, and it will have to go to Conference Committee. The goal will then be to get the four conferees to agree to delete the provision and send that issue to the Pension Management Oversight Study Commission this summer, thereby allowing the bill to move forward.

The bill met with virtually no opposition. There were a number of good questions about the current structure of the Fund, about the investment expertise of the Board, about the support system and resources. There was great testimony from virtually every constituent group. One issue that arises with the possible passage of the bill, however, concerns the matter of adoption of personnel policies whereby the Board would adopt all of the State benefit programs for the PERF employees. Therefore,

MOTION duly made and carried to ensure that all PERF employees maintain continuous benefit coverage under the State program.

Proposed by: Teresa Ghilarducci
Seconded by: Nancy Turner
Votes: 5 for, 0 against, 0 abstentions

Another piece of legislation impacting PERF is Senate Bill 62, which is the police and fire disability/line of duty taxation bill. The bill has moved through the General Assembly as follows:

- Pensions & Labor Committee – Passed unanimously
- Senate Floor – Passed 48-0
- Ways & Means Committee – Bill was amended to include provisions for:
 - A substantial increase or change in the TRF benefit formula calculation
 - A very significant change in the legislators' benefit calculation
 - A change in pension relief distribution payments

It is hopeful that this bill can be moved out of the House and then cleaned up in conference report to include only the taxation and pension relief distribution payment changes.

3. ASSET LIABILITY MANAGEMENT STUDY

Representatives of Wm. M. Mercer Investment Consulting were present and discussed the Asset Liability Management Study they had prepared for the Board of Trustees (report on file).

The Asset Liability Management Study was divided into four distinct parts:

- An analysis of the Police & Fire Fund
- An analysis of PERF
- An analysis of the Pension Relief Fund
- An analysis of the Annuity Savings Account (ASA) Guaranteed Account

These four plans were identified as having very different benefit profiles, which raises the possibility of having different asset allocations. The following financial objectives were discussed for Police & Fire, PERF, and the Pension Relief Fund based upon the Fund's history and legal constraints:

Police & Fire

- Maintain contribution stability at the 21% of payroll level.
- Maintain/improve the actuarial funded status. Assets divided by liability greater than or equal to 100%.

PERF

- Maintain stability of contributions and minimize the likelihood of an increase.
- Maintain/improve the actuarial funded status in the 112% range.
- Maintain/improve the absolute funded status, assets divided by liabilities.
- Improve the ability to grant COLAs.
- Produce a competitive investment return.

ASA Guaranteed Fund (subset of PERF)

- Minimize the likelihood of falling below the actuarial assumed rate of return.
- Maximize the likelihood of producing a return above the bond market.

Pension Relief

- Maximize the life of the Fund.
- Minimize the likelihood of a return below the actuarial assumed rate of return.

Following discussion of all these issues, the matter of asset liability management was referred to the Investment Committee for further discussion at their meeting on March 7.

4. NEXT MEETING

The next meeting of the Board of Trustees was previously scheduled for April 17 & 18, 2000